

OFFICE OF THE STATE CONTROLLER
1998 CAFR FOOTNOTES
CASH AND INVESTMENTS— DEFINITIONS AND TERMS (CONTINUED)

CAFR Footnote Ref. No. 4

The following definitions should be useful in classifying cash and investments listed on the following pages:

Cash and Cash Equivalents:	<i>Cash and cash equivalents in banks outside State Treasurer.</i>
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DEPOSITS MAINTAINED BY AGENCIES

Account 111110 Cash on Hand

This account includes cash used by the agency for change funds and petty cash funds. It also includes undeposited receipts of the agency at year-end.

Account 111120 Cash in Bank - Noninterest Bearing Checking Accounts

This account is to be used when an agency has a regular noninterest bearing checking account at a financial institution.

NOTE: Also, any Institutional Trust Funds on deposit at State Treasurer will be automatically recorded by the North Carolina Accounting System to Account 111120. At year-end the amount of Institutional Trust Fund cash on deposit with State Treasurer should be reclassified from Account 111120 to Account 111220.

Account 111130 Interest Bearing Cash Accounts (the following should be included in this control)

Savings Accounts

This account is to be used when an agency has a savings account at a financial institution. Savings accounts are time deposits. Generally passbook savings accounts are regarded as readily available funds even though banks are authorized to require up to 30 days notice of withdrawal.

Negotiable Order of Withdrawal Accounts (NOW Accounts)

This account is to be used when an agency or university has a NOW account at a bank or savings and loan institution. NOW accounts are time deposits. NOW accounts are, in effect, interest bearing checking accounts.

Money Market Accounts

This account is to be used when an agency has a Money Market Account at a financial institution. Money Market Accounts are time deposits. Money Market Accounts usually require a minimum of \$1,000 and only three checks may be drawn per month, although unlimited transfers may be carried out at an automatic teller machine. The funds are considered liquid--that is, they are available to depositors at any time without penalty. These accounts are insured by the Federal Deposit Insurance Corporation.

Interest Bearing Checking Accounts

This account is to be used when an agency has a regular interest bearing checking account with a financial institution.

Account 111190 Cash in Bank - Other Accounts

This account is to be used when an agency has an account at a financial institution and it does not meet the definition of one of the above identified controls.

Account 111140 Cash in Bank - Pooled Cash Accounts

This account is to be used by AOC only. This control represents their pooled trust funds at a financial institution in which funds held in trust are invested in one account and the interest is prorated to the individual trust account in the pool (e.g. Clerk of Court Investment Pools). These accounts are subject to federal insurance.

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Pooled Cash: <i>Cash in State Treasurer's Temporary Investment Funds—STIF and Other Cash pools.</i>
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STATE TREASURER POOLED CASH—MAINTAINED BY STATE TREASURER

Account 111210 Liquid Asset Fund

The State Treasurer operates a short-term cash investment pool for local governments called the Liquid Asset Fund (LAF). Local governments apply for LAF Accounts on a voluntary basis.

Account 111220 State Treasurer's Short-Term Investment Fund (STIF)

STIF accounts are interest bearing accounts established directly with the Treasurer's Office. Agency funds eligible for STIF Accounts are not subject to the Executive Budget Act. Participants in the pool are allocated interest based upon their average daily balance in the Fund.

Account 111230 Cash Carried Forward

This account includes amounts authorized by the Office of State Budget as a carry forward of funds to the next fiscal year. Checks are drawn payable to the agency and are deposited to the credit of that agency on the first day of the next fiscal year.

Account 111240 General Fund Revenue Cash

This account represents the General Fund cash balance shown on the Office of the State Controller-Disbursing Section's records. The use of this control is restricted to the Office of the State Controller.

Account 111250 Cash in Disbursing Account

This account serves as a clearing account for checks written by the agencies. The balance in the account should always be zero. The residual cash balance in the disbursing accounts at the State Treasurer normally represents uncleared checks.

Account 111260 Budget Code Cash

This account represents cash recorded in all budget codes, except for institutional funds, general fund and capital improvement funds. The budget code cash may earn interest if legally mandated.

Account 111270 Cash in Allotment Account

This account represents funds on deposit in the State Treasury which are available for expenditure by an agency for authorized purposes. The Office of State Budget and Management authorizes, through quarterly allotments, amounts agencies may expend from appropriations.

All balances in the Cash in Allotment Account should revert to the General Fund at year-end, except for those balances in GASB Fund 14XX - Capital Projects Funds.

Account 111280 Unallotted State Appropriations for Capital Improvements

This account represents an agency's share of revenues which have been appropriated from the State's General Fund by the Legislature for capital improvements but have not been released by the Office of State Budget and Management.

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Pooled Investments:	<i>Investments in State Treasurer and other investment pools.</i>
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POOLED INVESTMENTS MAINTAINED BY STATE TREASURER

Account 112210 Long-Term Investment Fund

This account is to be used to record the agency's investments (cost basis) associated with its units of ownership in the Treasurer's pool.

Account 112220 Equity Investment Fund

This account is to be used to record the Pension Fund's investments (cost basis) associated with its units of ownership in the Treasurer's pool.

Account 112230 Real Estate Investment Fund

This account is to be used to record the Pension Funds' investments (cost basis) associated with its units of ownership in the Treasurer's pool.

Account 112240 Venture Capital Investment Fund

This account is to be used to record the Pension Funds' investments (cost basis) associated with its units of ownership in the Treasurer's pool.

Account 112250 Bond Proceeds

To provide for maintaining records on the investments of the State general obligation bond proceeds subject to Federal arbitrage regulations.

Investments:	<i>Investments held outside the State Treasurer.</i>
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INVESTMENTS MAINTAINED BY AGENCIES

Account 112103 Corporate Bonds

Securities reported within this control are bonds issued by a U.S. corporation. Some examples of these types of bonds are debentures (unsecured bonds) and convertible debentures (convertible bonds). The convertible debentures will be recorded to this control until they are converted to stock.

Account 112104 Corporate Stocks

The types of securities reported in this control usually represent ownership interest possessed by shareholders in a U.S. corporation. Some common examples of these types of securities are (1) common stock, (2) preferred stock, and (3) convertible preferred stock.

Account 112101 U.S. Government Guaranteed Securities or Obligations

The types of securities reported in this control are issued by the U.S. Treasury and other U.S. governmental agencies, i.e., Federal Home Loan Bank, Federal Loan Bank, Government National Mortgage Association (GNMA), and Federal National Mortgage Association (FNMA). Examples of the types of securities classified within this control would be notes, bonds, or other debt instruments which are issued by these U.S. governmental agencies. **Includes all securities except CMO's (see below).**

Account 112124 Collateralized Mortgage Obligations (CMO)

A security created using the underlying cash flows from mortgage-backed securities as collateral. A CMO shifts the uncertainty regarding the exact timing of principal return in a mortgage-backed security. This uncertainty exists because the timing of mortgage principal payments is influenced by changes in interest rates, the current economic climate, and the geographic makeup of loans.

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Account 112124 Collateralized Mortgage Obligations (CMO) (Continued)

CMO Tranche Types: The tranche type is determined based on a series of descriptors. The descriptors are ordered to reflect the principal payment behavior of the bond and then the interest payment behavior of the bond. The following is a list which describes each descriptor:

- AD** Accretion Directed - A bond that pays principal from specified accretions of accrual bonds.
- CPT** Component - A bond comprised of multiple components, sometimes of different types.
- DLY** Delay - Floating rate of inverse floating rate class for which there is a delay between the end of the interest accrual period and the payment date.
- FIX** Fixed Interest Rate - A bond whose coupon rate does not vary.
- FLT** Floater - A bond whose coupon resets periodically based upon a predetermined index. The coupon varies directly with changes in the index.
- INV** Inverse Floater - A bond whose coupon resets periodically based upon a predetermined index. The coupon varies inversely with changes in the index.
- IO** Interest Only - A bond that receives some or all of the interest portion of the underlying collateral and little or no principal.
- LIQ** Liquidity - LIQ bonds are an agency issue bond that has a five-year or less original stated maturity or any non-agency issue that has a three-year or less original stated maturity.
- NPR** Non-Paying Residual - Residual bond which pays neither principal nor interest.
- PAC** Planned Amortization Class - A bond that pays principal based on a predetermined schedule. The schedule is maintained as long as prepayment rates remain between the upper and lower "collar" rates.
- PO** Principal Only - A bond that does not receive any interest.
- SCH** Scheduled - A bond that pays principal based on a predetermined schedule, but does not fit the definition of a PAC or TAC. Generally, scheduled tranches have a prepayment collar that is too narrow to be called a PAC.
- SEQ** Sequential Pay - A bond which starts to pay principal when classes with an earlier priority have been paid off. SEQ bonds have an uninterrupted payment of principal until retired.
- SUP** Support - A bond that receives principal payments after scheduled payments have been made on some or all PAC, TAC, and /or SCH bonds for each payment date.
- TAC** Target Amortization Class - A bond that pays principal based on a predetermined schedule. Similar to a PAC, but with less extension protection.
- Z** Accrual - A bond that accretes interest which is added to the outstanding principal balance.

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Account 112102 State and Municipal Debt Securities Fund

The types of securities reported in this control are notes, bonds, or other debt instruments issued by any state or its political subdivision (county, city, etc...).

Account 112111 International Bonds—Government

The type of securities reported in this control are notes, bonds, or other debt instruments issued by governments outside the United States.

Account 112110 International Bonds—Corporate

The type of securities reported in this control are bonds issued by a corporation whose corporate charter and main corporate headquarters are located outside the United States. The bonds are debentures (unsecured bonds) and convertible debentures (bonds). Two common examples are bonds issued by the World Bank or Asian Development Bank.

Account 112112 International Stocks

The type of securities reported in this control are stocks issued by a corporation whose corporate charter and main corporate headquarters are located outside the United States. Examples of these types of stock are common, preferred, and convertible preferred.

Account 112109 Investment in Real Estate

This control is to be used to record land and all physical property related to it that is owned by state agencies and universities for investment purposes (e.g., endowment fund properties).

Account 112118 Real Estate Investment Trust (REIT)

To account for investments with a company operating a Real Estate Investment Trust (REIT). A portfolio of real estate is managed in order to earn profits for its shareholders. The investment in these REIT's represent a share of ownership in the trust, not a parcel of real estate.

Account 112108 Annuity Contracts

A form of contract sold by life insurance companies that guarantees a fixed or variable payment to the annuitant at some future time, usually at retirement.

Account 112114 Investment Agreements

These are agreements with banks for the deposit of money at a fixed rate for a period of time prescribed by the agreement or bond resolution.

Account 112113 Certificates of Deposit

To account for all certificates of deposit (CD's) which are either negotiable or non-negotiable.

Account 112115 Bank Investment Contract

To account for a deposit of money into a contract that guarantees the funds to earn a fixed rate for a fixed period of time normally ranging from 1, 3, or 5 years. The deposits in these contracts are at banks and are subject to federal insurance.

Account 112105 Repurchase Agreements (REPO)

An agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.

These agreements usually involve federal government obligations and are often executed on an overnight basis.

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Account 112120 Reverse Repurchase Agreements

An agreement in which a broker-dealer or financial institution (buyer-lender) transfers cash to a governmental entity (seller-borrower); the entity transfers securities to the broker-dealer or financial institution and promises to repay the cash plus interest in exchange for the same securities.

Account 112106 Commercial Paper

This instrument is a short-term obligation with a maturity that can range from 2 to 270 days which is issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest bearing. This type of instrument can be issued directly or through a broker. Almost all commercial paper is rated as to credit risk by rating services.

Account 112107 Bankers' Acceptances

Bankers' acceptances generally are created based on a letter of credit issued in a foreign trade transaction. Bankers' acceptances are short-term, noninterest bearing notes sold at a discount and redeemed by the accepting banks at maturity for face value.

Account 112117 Mutual Funds

These are funds operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities. These funds offer the investor the advantage of diversification and professional financial management.

Account 112116 Money Market Funds

This account is to be used when an agency has a Money Market Fund at a financial institution. Money Market Funds are in effect an open-ended mutual fund that invests in various highly liquid securities. Such funds usually offer check writing privileges, but funds are not federally insured.

Account 112119 Limited Partnerships

This account consists of investments in limited partnerships. Public limited partnerships are typically sold through brokerage firms whereas private limited partnerships are put together with fewer than 35 limited partners who invests more than \$20,000 each. Some typical limited partnerships are in real estate, oil and gas, movie financing, research and development, and **venture capital**.

Account 112123 Pooled Investments (internal pools managed by banks)

This control is to be used when the fund that the university places with a bank are pooled together with other depositors' money and these funds are invested in investment pools that are managed and operated by the banks (e.g.; life income pools). The internal investment pools reported under this control are not openly traded mutual funds.

Account 112190 Other Investments

This account is to be used when an agency has an investment and it does not meet the definition of one of the above identified controls.

Account 112121 Cash With Fiscal Agent

Residual cash, along with various investments, are components of an investment account maintained by a fiscal agent. Residual cash is that minor portion of the account which is not invested at any particular moment in time. **Residual cash is NOT the amount of total funds given to the fiscal agent for investing.** This account is used only for the residual cash that the fiscal agent does not have tied up in investments at June 30.

Account 112122 Investments With Fiscal Agent

This account includes only those amounts in a fiscal agent account that are actually invested at June 30.